



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

November 5, 1999

### **H.R. 303**

**A bill to amend title 38, United States Code, to permit retired members of the Armed Forces who retired with over 20 years of service and who have service-connected disabilities to receive compensation from the Department of Veterans Affairs concurrently with retired pay, without deduction from either**

*As introduced on January 6, 1999*

### **SUMMARY**

The bill would allow concurrent payment of retirement annuities together with veterans' disability compensation to retirees from the military, the Coast Guard, the Public Health Service (PHS), and the National Oceanic and Atmospheric Administration (NOAA) who have service-connected disabilities and have retired based on 20 or more years of service.

CBO estimates that enacting the bill would increase outlays for retirement annuities by \$1.9 billion in 2001, by \$8.1 billion over the 2001-2004 period, and by \$19.7 billion over the 2001-2009 period. In addition, the Department of Defense (DoD) would have to make payments totaling about \$0.7 billion a year to the military retirement trust fund to cover the increase in future liabilities for current military personnel. The additional annuity payments would represent direct spending and the increased contributions to the retirement trust fund would come from appropriated funds. Because the bill would affect direct spending, pay-as-you-go procedures would apply. The legislation contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of the bill is shown in the following table. The estimate assumes that the bill would be implemented on October 1, 2000. There would be costs in fiscal year 2000 if the bill is enacted earlier.

| By Fiscal Year, in Millions of Dollars     |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|
|  | 1999   | 2000   | 2001   | 2002   | 2003   | 2004   |
| <b>DIRECT SPENDING</b>                     |        |        |        |        |        |        |
| Retirement Annuities                       |        |        |        |        |        |        |
| Spending Under Current Law                 |        |        |        |        |        |        |
| Estimated Budget Authority                 | 31,992 | 32,970 | 33,969 | 34,959 | 36,047 | 37,119 |
| Estimated Outlays                          | 31,935 | 32,885 | 33,888 | 34,873 | 35,958 | 37,029 |
| Proposed Changes                           |        |        |        |        |        |        |
| Estimated Budget Authority                 | 0      | 0      | 1,946  | 2,003  | 2,064  | 2,124  |
| Estimated Outlays                          | 0      | 0      | 1,946  | 2,003  | 2,064  | 2,124  |
| Spending Under the Bill                    |        |        |        |        |        |        |
| Estimated Budget Authority                 | 31,992 | 32,970 | 35,916 | 36,962 | 38,111 | 39,243 |
| Estimated Outlays                          | 31,935 | 32,885 | 35,835 | 36,876 | 38,022 | 39,153 |
| <b>SPENDING SUBJECT TO APPROPRIATION</b>   |        |        |        |        |        |        |
| DoD Payments to the Military               |        |        |        |        |        |        |
| Retirement Trust Fund                      |        |        |        |        |        |        |
| for Accrual Costs                          |        |        |        |        |        |        |
| Spending Under Current Law                 |        |        |        |        |        |        |
| Estimated Authorization Level <sup>a</sup> | 10,417 | 11,406 | 11,734 | 12,102 | 12,442 | 12,807 |
| Estimated Outlays                          | 10,417 | 11,406 | 11,734 | 12,102 | 12,442 | 12,807 |
| Proposed Changes                           |        |        |        |        |        |        |
| Estimated Authorization Level              | 0      | 0      | 672    | 693    | 712    | 733    |
| Estimated Outlays                          | 0      | 0      | 672    | 693    | 712    | 733    |
| Spending Under the Bill                    |        |        |        |        |        |        |
| Estimated Authorization Level <sup>a</sup> | 10,417 | 11,406 | 12,406 | 12,795 | 13,155 | 13,540 |
| Estimated Outlays                          | 10,417 | 11,406 | 12,406 | 12,795 | 13,155 | 13,540 |

NOTE: The direct spending costs of this legislation would fall within budget functions 600 (income security), 300 (natural resources), 400 (transportation), and 550 (health). The spending subject to appropriation would fall within budget function 050 (national defense).

a. The 1999 level is the actual payment for that year; the 2000 level is the estimated appropriation for that year.

Under current law, disabled veterans who are retired from the military, the Coast Guard, PHS, or NOAA cannot receive both full retirement annuities and disability compensation from the Department of Veterans Affairs (VA). Such veterans forgo a portion of their retirement annuity equal to the nontaxable veterans' benefit. The bill would allow individuals who have service-connected disabilities and have retired based on 20 or more years of service to receive both benefits without the reduction called for in current law.

## **Direct Spending**

The potential costs of the bill depend on the number of beneficiaries, their disability levels, and the benefit amounts. Data from DoD indicate that the prohibition on paying both benefits concurrently caused about \$1.7 billion to be withheld from annuity payments in 1998. About 428,000 retirees were affected in 1998, and CBO estimates that by 2001 the number would rise to about 437,000 military retirees. In addition, about 5,400 Coast Guard retirees, about 765 PHS retirees, and about 45 NOAA retirees would benefit from the bill. CBO projects this caseload for future years using current rates of net growth in the population of new beneficiaries. Assuming that average disability levels remain about the same as in 1998 and that benefit payments rise from cost-of-living adjustments, CBO estimates that under H.R. 303 the cost of retirement annuities would rise by \$1.9 billion in 2001, \$8.1 billion over the 2001-2004 period, and \$19.7 billion over the 2001-2009 period. As increased retirement payments would begin immediately after enactment of the bill, there would also be costs in 2000 if the bill is enacted during this fiscal year.

The cost of this bill would be higher if retirees can change the basis of their annuity from a disability retirement to a longevity-based retirement. Approximately 25,000 retirees receive an annuity based on a disability even though they have 20 or more years of service and thus meet the requirements for a longevity retirement. Current DoD practice is to grant a retiree whichever type of retirement is more generous. Since this bill would not benefit those with disability-based retirements, most of those with dual eligibility who are currently receiving disability retirements would find it advantageous to change the basis of their annuity to the longevity retirement. It is not clear, however, whether current law allows them to do so. If it does, CBO estimates an additional increase in direct spending of about \$0.1 billion in 2001, slightly less than \$1 billion over the 2001-2004 period, and about \$2 billion over the 2001-2009 period.

## **Spending Subject to Appropriation**

The military retirement system is financed in part by an annual payment from appropriated funds to the military retirement trust fund, based on an estimate of the system's accruing liabilities. If the bill is enacted, the yearly contribution to the military retirement trust fund (a DoD outlay in budget function 050) would increase to reflect the added liability from the increase in annuities to future retirees. Using information from DoD, CBO estimates that enacting this bill would increase such payments by about \$0.7 billion in 2001, \$2.8 billion over the 2001-2004 period, and \$6.8 billion over the 2001-2009 period. If individuals who retired based on a disability could switch to a longevity-based retirement, there would be an additional increase in accrual costs of about \$0.1 billion in 2001, \$0.4 billion over the 2001-2004 period, and \$0.9 billion for the 2001-2009 period.

## **PAY-AS-YOU-GO CONSIDERATIONS**

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in direct spending are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects in the budget year and the succeeding four years are counted.

|                     | By Fiscal Year, in Millions of Dollars |       |       |       |       |       |       |       |       |       |
|---------------------|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                     | 2000                                   | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  |
| Changes in outlays  | 0                                      | 1,946 | 2,003 | 2,064 | 2,124 | 2,185 | 2,247 | 2,309 | 2,372 | 2,435 |
| Changes in receipts | Not applicable                         |       |       |       |       |       |       |       |       |       |

## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

The bill contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

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